

Message Text

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INFO AMCONSUL RIO DE JANEIRO

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E.O. 11652: N/A

TAGS: BENC, BR

SUBJECT: SIDERBRAS PHASE III EXPANSION-BRAZILIAN INCENTIVES

REF: (A) STATE 87719 (B) BRASILIA 5474 JULY 24, 74

1. ACCORDING TO SIDERBRAS FINANCIAL OFFICIAL (CARLOS HECTOR FARIA DE LIMA), THE GOB HAS NOT RPT NOT CHANGED THE BASIC PREFERENCE FOR LOCAL PRODUCERS BIDDING IN INTERNATIONAL BIDS FOR PHASE III OF STEEL EXPANSION PROGRAM. THE BRAZILIAN POLICY, IT WILL BE RECALLED, IS IN ACCORDANCE WITH INTERNATIONALLY-AGREED PRACTICES, AND PROVIDES THE LOCAL PRODUCERS WITH A 15 PERCENT PREFERENCE.

2. WHAT THE GOB HAS CHANGED, HOWEVER, ARE THE RULES GOVERNING THE APPLICATION OF INCENTIVES TO SALES OF EQUIPMENT BY LOCAL PRODUCERS UNDER INTERNATIONAL BIDS. IN 1974, THE GOB DECREED THAT THESE SALES WOULD BE TREATED THE SAME WAY AS EXPORTS TO WHICH THE EXPORT INCENTIVE SCHEME WOULD APPLY (REF B). ORIGINALLY, THE APPLICABILITY OF THESE INCENTIVES WAS DECIDED ON A CASE-BY-CASE BASIS

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UNDER THE REVISED REGULATIONS, THESE INCENTIVES WILL BE PROVIDED ACROSS-THE-BOARD. AS INDICATED IN REFTTEL (A), HOWEVER, THE INCOME TAX EXEMPTION USUALLY AVAILABLE TO EXPORTERS WILL NOT BE MADE AVAILABLE TO THE
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LOCAL SUPPLIERS. ONLY THE ICM AND IPI CREDITS

ARE BEING GRANTED.

3. WE BELIEVE THAT THE TREATMENT OF EQUIPMENT SALES BY LOCAL PRODUCERS AS EXPORTS PROVIDES A VERY DEFINITE ADVANTAGE TO LOCAL SUPPLIERS AND ADVERSELY AFFECTS THE COMPETITIVE POSITION OF US BIDDERS. THE ICM AND IPI CREDITS VARY FROM 5 TO 15 PERCENT (FOR EACH), DEPENDING ON THE NATURE OF THE EQUIPMENT. COMING ON TOP OF THE 15 PERCENT LOCAL PREFERENCE, IT PROVIDES THE LOCAL SUPPLIERS WITH A CONSIDERABLE COMPETITIVE ADVANTAGE. ALTHOUGH IN THEORY THIS ADDITIONAL ASSISTANCE CAN REACH 30 PERCENT (15 PERCENT FOR ICM AND 15 PERCENT FOR IPI), IN PRACTICE IT IS DIFFICULT TO ESTIMATE ITS EXACT MAGNITUDE SINCE -- AS WE HAVE LEARNED IN THE SHOE CASE -- THESE CREDITS ARE NOT ALWAYS UTILIZED FULLY. WE WOULD ESTIMATE, HOWEVER, THAT IN THE CASE OF EQUIPMENT PRODUCERS THE UTILIZATION RATE IS VERY HIGH SINCE THEY PRODUCE MOSTLY FOR THE DOMESTIC MARKET AND THEREFORE HAVE SUFFICIENT TAX LIABILITIES AGAINST WHICH TO USE THE ICM AND IPI CREDITS.

4. WE HAVE ALSO LEARNED THAT THE GOB HAS PROMISED LOCAL SUPPLIERS 50 PERCENT OF THE BUSINESS UNDER PHASE III.
JOHNSON

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